7.05.00.00 - METHODS OF VALUATION

7.05.01.00 Value Approaches

The appraisal of all properties will utilize the three approaches to value as appropriate. If an approach is not used, an explanation will be given for the nonapplicability of the particular approach. Even if not required, separate approaches may be used if helpful.

The final reconciliation of value will be made considering the relative validity and reliability of each approach and will be the best estimate of the value of the entire property. The basis of reconciliation and relative considerations will be explained as necessary. Averaging is not a satisfactory reconciliation procedure. Exhibit 7-EX-4 is a suggested format. The final Estimate of Value should be further segregated for total charges to lessee-owned improvements, partial acquisition, joint acquisitions, etc.

Separate approaches and reconciliations for before and after conditions may be required to measure severance damages.

7.05.02.00 Sales Comparison Approach

The Sales Comparison Approach is required in most appraisals. The only exception to this rule is in certain governmental, public utility, or special-purpose parcels under specified circumstances. Comparable data will be fully utilized for direct comparison of total values, land values, improvement values, for information for other approaches, and for damage and special benefit studies.

Gross Income Multipliers are a unit for comparison of income properties and are indicated when there are sufficient sales of similar properties. It is extremely important to use similar properties when employing this method.

7.05.02.01 Comparable Data

The most reliable comparable data are the sales and listings of properties similar to subject parcels. Comparable data are not to be limited to sales and listings or to use in the Sales Comparison Approach. Valuable information may be gained for all three approaches by studies of similar properties with regard to use and development, well-informed opinions, independent appraisals, depreciated values, after condition land use, remainder parcel and excess parcel sales, options, income-expense experience, etc. Each factor or value element in the appraisal which can be supported by comparable data attains greater reliability.

Significant comparable data of all types are expected to be included in the Appraisal Report in support of appraisal conclusions.

Sections 7.02.03.00 M and N contain further information on comparable data.

7.05.02.02 Analysis of Comparable Data

Proper analysis of comparable data in relation to the subject is basic to the Sales Comparison Approach. The following procedures are intended to achieve the optimum quality in the discussion relating comparables to the subject parcel:

A. Comparable-data prices may be compared in terms of whole properties. However, to facilitate comparison, reduction of comparable prices to a common denominator or unit of comparison may be desirable. Examples are price per square foot and price per dwelling unit. Applicable adjustments may be made on either the whole property or unit of comparison basis.

B. The six basic elements of comparable adjustment are:

1. Property rights conveyed (i.e., conveyance of leasehold interest, etc.)
2. Financing terms
3. Conditions of sale (i.e., motivations of the buyer or seller)
4. Expenditures immediately after purchase (expenditures a buyer will have to make immediately upon purchase, i.e., demolition costs, hazardous waste cleanup)
5. Market conditions (time)
6. Physical characteristics (e.g., location, size, shape, topography, access, etc.)

C. Adjustments to Comparable Data

Both Caltrans and FHWA appraisal policy recognizes the need to have an appraisal that is well supported and demonstrates a thorough analysis of the elements of comparison necessary to arrive at a factual conclusion in the sales comparison approach. Each appraisal must contain a sufficient description of the comparable sales including the specific elements of comparison made thereto so that it is possible for the reader to understand the conclusions drawn by the appraiser from the comparable sales data. Caltrans and FHWA policy mandates that quantified adjustments shall be the primary method of adjusting comparable data. The quantified adjustments can be expressed as a percentage or dollar amount and represents a market derived adjustment or, absent that, the appraiser's opinion of the comparative weight for the element of comparison to be made.

In very limited circumstances when the appraiser cannot find market derived adjustments and/or cannot form an opinion of the comparative weight for the element of comparison to be made, qualitative adjustments can be used. When the appraiser must resort to qualitative adjustments, they must recognize that this form of comparative analysis will require a more extensive discussion. Merely to state that the comparable is overall superior or inferior or is superior or inferior for a particular element of comparison is not suitable. Each element of comparison must be discussed in sufficient detail to allow the reader to clearly understand the appraiser's reasoning for the adjustment and the comparative weight that the appraiser is attributing to that element of comparison. In addition, the appraiser must state whether the comparable sale is overall superior or inferior to the subject.

Quantitative and qualitative adjustments are not mutually exclusive methodologies. Because one element of comparison cannot be quantified does not mean that all adjustments to a comparable sale must be qualitative. All factors that can be quantified should be adjusted accordingly. When quantitative and qualitative adjustments are both used in the adjustment process, all quantitative adjustments should be made first.

If no adjustment of any element is needed, a statement explaining the reason(s) shall be included in the appraisal.

In developing a final value estimate by the sales comparison approach, the appraiser shall explain the comparative weight given to each comparable sale, no matter whether quantitative or qualitative adjustments or a combination thereof are used. A comparative adjustment chart or grid is strongly recommended and may assist the appraiser in applying the adjustments consistently and help the reader follow the appraiser's reasoning and analysis.

D. Sequence of Adjustments

The following sequence for making adjustments is required whenever percentage adjustments are used either solely or in combination with dollar adjustments. The first series of adjustments are sequentially applied with resulting subtotals for each adjustment. After applying the market condition adjustment, all other adjustments for items such as location, physical characteristics, etc., are combined and applied to the market conditions adjusted price to arrive at a final adjusted sales price.

This sequence is depicted in the following example:

Unadjusted sales price		$100,000
Adjustment for property rights conveyed	0%	0
Adjusted price		$100,000
Financing terms	-5,000	-5,000
Adjusted price		$95,000
Conditions of Sale	+10%	+9,500
Adjusted price		$104,500
Adjustment for expenditure immediately after purchase		+5,000
Adjusted price		$109,500
Adjustment for market conditions	+10%	+10,950
Adjusted price		$120,450
Location	+5%	
Size	-10%	
Shape	-5%	
Topography	-5%	
Access	+5%	
Net Adjustment	-10%	**-12,045**
Final Adjusted Sales Price		**$108,405**

7.05.03.00 Assessor's Office Data

Under Section 408 of the Revenue and Taxation Code (AB 82-Chapter 1641), County Assessors are required to provide information, abstracts, or access to records to Caltrans staff appraisers "pursuant to their authorization to examine such records."

The code provides that Caltrans will reimburse the Assessors for their actual costs incurred in furnishing data pursuant to the code. These costs and the resulting charges to Caltrans can vary from county to county.

The obtaining of data and arrangements as to fees involved should be handled directly between the Region/District and the Assessor's Office involved.

7.05.04.00 Cost Approach

The Cost Approach is required in the valuation of improved properties where income and market data are nonexistent, limited, or inconclusive. In the valuation of improved properties where there is sufficient comparable data to estimate the value of the property by the market and income approaches, the Cost Approach is optional. However, the Cost Approach may still be appropriate and advisable in these cases for reconciliation with the Income and Sales Comparison Approaches. The Cost Approach is not required for the valuation of minor improvements and improvements that have only interim, salvage, or a negative value.

An analysis and support of depreciation must accompany the Cost Approach. The basis for the "cost new" estimates must be supported by acceptable cost sources. This applies to the valuation of buildings, structures, machinery and equipment and all other improvements pertaining to the realty defined in Code of Civil Procedure Section 1263.205.

Support of the cost new estimates with acceptable cost sources applies to all appraisals using the Cost Approach prepared by either staff or independent appraisers, including separate specialty-type appraisals (e.g., machinery and equipment). The same support for cost estimates also applies to cost-to-cure damages.

The following are some of the cost-new sources which are acceptable:

- Recent actual construction costs of similar improvements.

- Cost data services (e.g., Marshall & Swift).

- Architects, engineers, contractors, builders and supplier estimates.

- Actual written bids from contractors, engineers, suppliers, etc.

- Manufacturers' catalogs.

When estimates from architects, engineers, contractors, etc., are used as cost sources and the estimated cost new of any improvement is substantial, a secondary cost source must be used as collateral support. If more than one cost source is used and the costs differ, the appraiser must furnish rationale for the final cost estimate.

When a cost-data service such as Marshall & Swift is used as a cost source, the appraiser must show the page, section, and date of each reference, together with support for any adjustments used in estimating the cost new. Cost references must be identified or referenced on an item-by-item basis in the Cost Approach. Exhibit 7-EX-5 is a suggested format for displaying the Cost Approach.

7.05.05.00 Income Approach

The Income Approach is appropriate and usually required for valuation of properties that are bought and sold in the market on the basis of income.

There may be instances where there is sufficient comparable data to very clearly support the value indicated by the Sales Comparison Approach without the need for analysis by other approaches. This would most often occur with smaller residential income properties. Use of the Income Approach in those cases is optional. However, its use may still be appropriate as a check against the other approaches. In most cases involving income property, inclusion of an Income Approach is expected.

The Income Approach is not required for minor partial acquisitions with no severance damages, which have little or no effect on the income stream and where there is no necessity for entire property valuation.

When the Income Approach is used, documentation to support each element, including income, expenses, and rate(s) must be included in the Appraisal Report. If possible, the same comparable sales used in the Sales Comparison Approach should be analyzed in sufficient detail to reflect these elements. If these sales cannot be utilized, other comparable data must be gathered and analyzed to obtain the necessary information. These data or a detailed summary must be included in the Appraisal Report.

Where economic rent varies from existing or contract rent, the increase or decrease shall be explained and supported by market information.

7.05.05.01 Income Schedule

A schedule of actual and fair income will be included as a supplement. The schedule will show the rental basis including furniture or utilities supplied, and the reasons for adjustment to fair rents. It will also include significant leasehold terms and conditions and may include a Gross Income Multiplier valuation. An example for an income residential property is Exhibit 7-EX-7, which also provides basic relocation assistance information.

7.05.06.00 Review of Owner's Claimed Out-of-Pocket Expenses

The Acquisition Branch must verify any payment to reimburse owners for out-of-pocket expenses claimed to be incurred by the development of property when development is interrupted by State's Acquisition. (See Chapter 8.) This will include appropriate audits, and, if necessary, review by the Regional Legal Office. However, the Acquisition Branch should request the Appraisal Branch to assist in the review of the reasonableness of the expenses claimed by the owner. This review will be to determine whether or not any of these expenses claimed have already been considered and included in the appraisal. This review should eliminate any duplication of payments.

NOTES: